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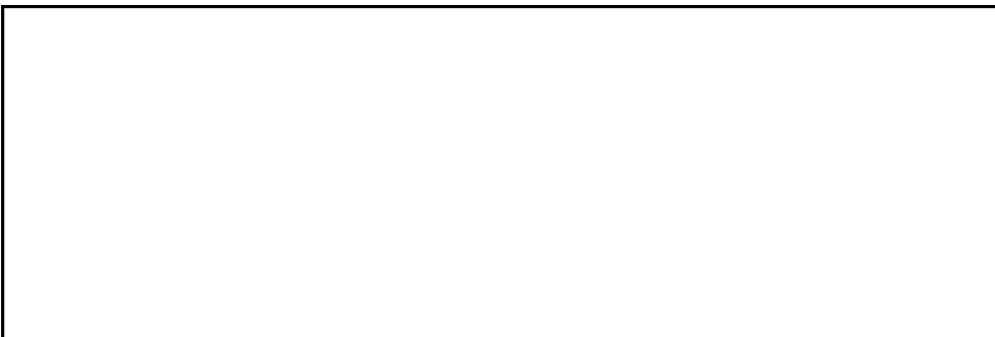
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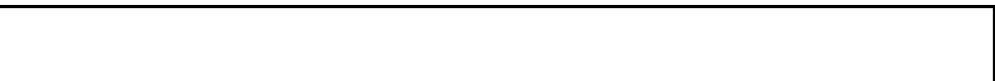
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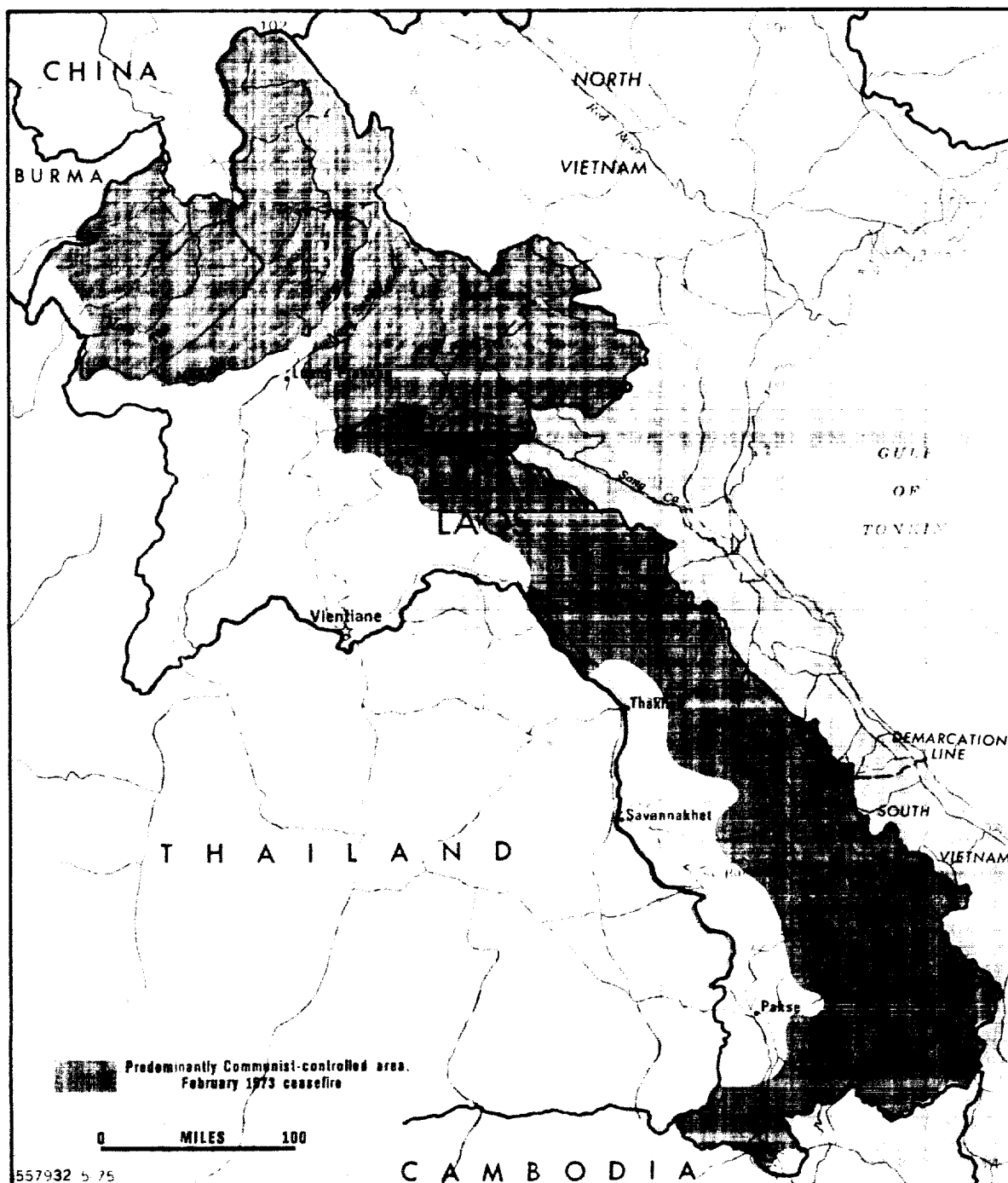
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LAOS

There had been no significant change in the situation in Vientiane as of this morning. An estimated 200-300 demonstrators yesterday continued their occupation of the principal USAID facilities in and around the Lao capital. A small number of Pathet Lao troops from Vientiane's joint military security force also continued to control access to a large American residential housing complex in the suburbs.

US observers described the atmosphere in Vientiane as "raucous but not menacing," and said that American newsmen and others at the demonstration sites were being treated in a "friendly fashion." No Americans have been harmed. At the main AID compound, two US Marine guards and a US contract employee remain barricaded inside an office building.

Members of the "neutralized" city's joint police force today arrested two demonstrators trying to break into a building at the main compound, but are still making no effort to disperse the demonstrators. Communist officials reportedly visited the compound and talked with the protesters today and yesterday.



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In discussing upcoming negotiations on continued US aid, Foreign Minister Phoumi Vongvichit said the coalition should receive all aid directly. He added, however, that a limited number of US technical experts would be allowed to oversee the administration of the aid and to account for it.

Meanwhile, the 12 Americans that have been under "voluntary" house arrest by demonstrators in Savannakhet for nearly a week are reported to be safe, and their release is expected shortly. Neutralist Interior Minister Pheng Phongsavan and his Pathet Lao deputy Deuane Sonnarath were scheduled to fly to Savannakhet yesterday to sign an agreement with the demonstrators calling for the "neutralization" of Savannakhet and the release of the American hostages. The Americans will then accompany Pheng and Deuane back to Vientiane.

* * * *

The Pathet Lao are continuing to tighten their grip on the coalition government. Pathet Lao Deputy Interior Minister Deuane Sonnarath and his communist colleague, Information Minister Souk Vongsak, have announced sweeping personnel changes in their respective ministries which effectively remove nearly a dozen non-communist officials from sensitive security, propaganda, and news media positions. Most will probably be replaced by Pathet Lao personnel or communist sympathizers.

The Pathet Lao, under the authority of Vientiane's joint police force, have also announced stringent new regulations governing domestic and foreign travel by both Lao citizens and foreigners, and all Chinese, Vietnamese, and Cambodians have been flatly prohibited from leaving the country.

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PORTUGAL

The Portuguese Socialist Party has scheduled mass rallies tonight in Lisbon and other cities to demonstrate its outrage over the Communist attempt to take over its newspaper.

A party leader told Ambassador Carlucci yesterday that the Socialists hope to draw 100,000 or more to the Lisbon rally, which they hope—but cannot guarantee—will be peaceful. A rally that large would put a severe strain on the security forces, especially in view of the declining morale and authority in the armed forces. Any violence could quickly get out of hand.

Socialist leaders have declared their intention to draw the line on the issue of the newspaper seizure. They appear prepared to pull out all stops to oppose the Communists and to press the government to resolve the dispute in their favor.

Party leader Mario Soares told President Costa Gomes on Tuesday that Socialist cabinet ministers will boycott government meetings until the paper is reopened and will withdraw from the coalition government if it is not returned to Socialist editorial control. Soares warned the President that if the Communists succeed in getting the Socialists out of the government, Costa Gomes himself will also soon be out.

In Angola

The military leaders in Lisbon, meanwhile, are seriously concerned that the deteriorating situation in Angola may mean a major setback to their policy of decolonization in Africa—the only policy area in which they have been able to claim significant success.

A breakdown in Angola could indeed have political repercussions in Portugal. Several leaders of the Armed Forces Movement have been closely linked to the decolonization policy and will suffer politically if the Angolan agreement falls apart. Admiral Rosa Coutinho, the rising star of the Revolutionary Council, headed the governing junta in Angola when the independence agreement was negotiated. He, as well as other Movement leaders, is already casting about for scapegoats. Some are blaming "international imperialism."

Foreign Minister Antunes said after a visit to Angola last week that Portugal is honor bound to guarantee an orderly settlement in Angola, even if it means the use of Portuguese troops. The question of using Portuguese troops in Angola is already becoming a divisive issue in Lisbon.

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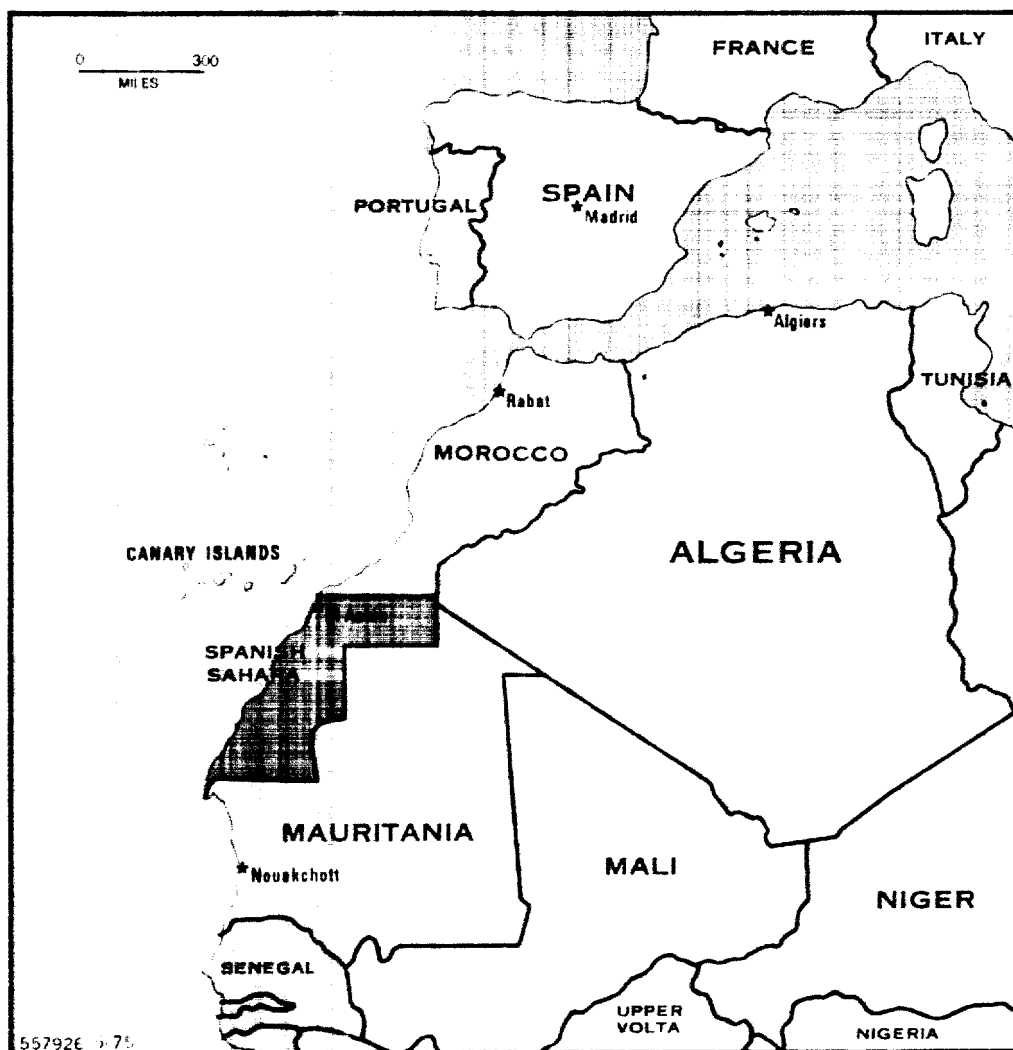
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SPAIN-MOROCCO

Spanish military sources have reported the movement last week of several army units from the Canary Islands to El Aaiun, the provincial capital of Spanish Sahara, located some 30 miles from the Moroccan border.

The US defense attache in Madrid believes some of the troops have been transferred to replace the 250 or so Saharans who have either deserted or were demobilized last week because of questionable loyalty. The moves also probably reflect Spain's desire to strengthen its forces in response to recent Moroccan provocations, including an upsurge of small-scale guerrilla operations.

The Spanish reportedly flew two parachute companies, plus two battalions of infantry and marines, to El Aaiun on May 13. Two barges loaded with 300 napalm bombs also are said to have embarked for El Aaiun that same day. On May 14, a mountain artillery group consisting of three batteries of four 105-mm. cannons left for El Aaiun, and additional materiel reportedly is being readied for shipment.

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IRAN

The assassination Wednesday of two members of the US military advisory group in Iran was apparently the work of an extremist religious group, the People's Strugglers. An anonymous caller to the US embassy claimed credit for the group, adding that the officers were the first of nine American officials marked for assassination in retaliation for the deaths of nine imprisoned terrorists shot last month by police during an alleged escape attempt.

At least one other US military officer was under surveillance by unknown persons for several days prior to yesterday's attack.

The embassy believes the attack was designed to embarrass the regime on the day that the Shah returned from his heavily publicized visit to the US. The assassinations also came within days of anniversaries of attacks on two other US military advisers in 1972 and 1973.

The People's Strugglers essentially represent ultraconservative religious elements in Iran who deplore the growth of Western, non-Muslim influences and the diminished power of traditional religious leaders that has resulted from the Shah's program of land and social reform. They regard the Shah as a "tool of foreign interests."

The influx of foreigners associated with Iran's industrialization has aggravated these feelings. The US community in Iran numbers over 16,000 and is expected to grow to 50,000 by 1980.

The Strugglers draw sympathy and financial support from certain religious centers in Iran and from bazaar merchants. Money reportedly is funneled to the terrorists through an exiled religious leader who has been living in Baghdad since 1963. In the past, the movement has received support from Iraq and probably some training from Palestinian guerrilla groups.

The Strugglers have, in concert with a radical Marxist terrorist group, carried out at least seven political assassinations in Iran since last August. Most of the victims have been security officials. A security informer reportedly was killed on Tuesday by the Marxist group. Efforts by Iran's security organizations to combat the terrorists have resulted in the slaying of some 14 alleged terrorists since March and the arrest of scores.

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These terrorist operations demonstrate the increased professionalism of the dissidents and the inability of Iranian security forces wholly to prevent individually targeted assassinations. The terrorists have not generated public support, and the attack on the US citizens probably does not indicate a change in the generally favorable public sentiment toward American military aid to Iran or Americans in general.

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VIETNAM

The communist authorities in Saigon may be adopting a tougher position regarding reprisals against former government officers.

According to the press, the new *Liberation Daily* in Saigon reports that a "popular movement" has developed "to pursue the wicked elements who were servants of Americans and their puppet Saigon government." The article, which is not yet available in Washington, reportedly indicates that some reprisals are in store for former officials and some people who worked for the US government, but it is not yet clear how severe these reprisals are to be.

This would represent a substantial change in the communists' public policy toward officers of the former government. Until now, the communists have been emphasizing that they would be lenient with all supporters of the former government who cooperate fully with the new regime.

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FRANCE

French President Giscard announced yesterday that he has accepted the invitation of Belgian King Baudouin to attend the dinner to be held for the heads of government participating in the NATO summit in Brussels on May 29 and 30. France, however, will still be represented at the talks by Foreign Minister Sauvagnargues.

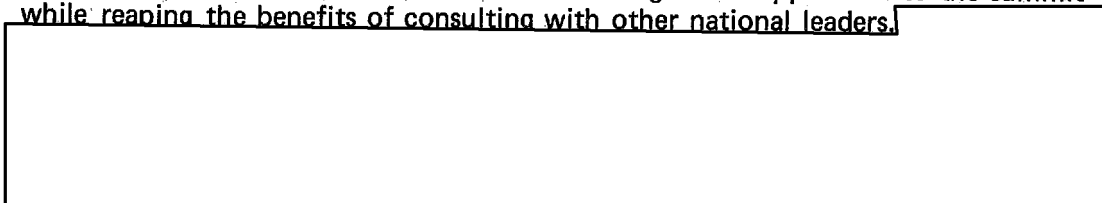
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Paris has argued against the NATO summit on the grounds that the Alliance's internal problems were fully covered at the meeting in Ottawa last summer. French officials assert that most problems currently facing NATO fall outside the purview of the Alliance. Another argument advanced by the French contends that a NATO summit will add to the "bloc confrontation" atmosphere at the European security conference summit that will probably take place sometime this year.

By treating the NATO summit as "just another ministerial" meeting but by attending the informal dinner himself, Giscard will be able to assure domestic opponents of NATO that he remains unflinching in his opposition to the summit while reaping the benefits of consulting with other national leaders.

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BOLIVIA

President Banzer is trying to cash in on growing nationalistic sentiment against Gulf Oil by pushing a tough campaign against the company.

On Tuesday, the government arrested Gulf's representative in La Paz and "criminal proceedings" were begun against him, the company, and its US chairman. The Bolivian ambassador in Washington requested State Department cooperation in eliciting full details on the company's admission that in the 1960s it had made "political contributions" to political supporters of former president Rene Barrientos.

Banzer's aides are telling US officials that "serious" political repercussions will result from the Gulf Oil disclosures unless the names of those involved are revealed and legal proceedings against them begun. There were initial indications that students, junior officers, and opposition leaders might seize upon the controversy as a means of attacking Banzer on the broader issue of corruption in government. More recently, however, this threat has been superseded by an outpouring of public indignation against the oil company—particularly its implication of the late General Barrientos, one of the country's few national heroes.

Banzer, with no durable political base, has repeatedly had to deal with conspiracies and coup attempts against his regime. He now sees an opportunity to undercut his opponents and gain popular support by defending "national dignity" and attacking one of the favorite targets in Latin America—the multinational corporation.

The Bolivian government still owes Gulf Oil over \$50 million as indemnification for oil installations nationalized in 1969. La Paz, allegedly because of growing public pressure, is threatening to suspend indemnity payments until the company fully clarifies its allegations. Since the payments are actually made by Argentine purchasers of Bolivian oil and gas and go directly into a New York bank trust account, Banzer's threats may be empty, however effective they are for domestic consumption.

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URUGUAY

The Uruguayan political scene has been thrown into even greater confusion by another dispute between President Bordaberry and army generals.

Frequent high-level flare-ups have occurred since the military began to exercise a major policy role in early 1973, in large part because lines of executive authority have remained unclear. Although the military and Bordaberry realize that they need each other, they have not been able to agree on who will exercise ultimate authority. This latent conflict has been evident in recent bickering between Bordaberry and certain army generals over economic policy issues.

The current dispute has been provoked by two separate incidents. Earlier this month, a military commission arrested a top economic aide for publishing an unauthorized article and detained him after the President had ordered his release. In another incident, the military high command reportedly reinstated the head of the national beef institute, whom Bordaberry had fired earlier this week.

To add to the complexity of the situation, the politically ambitious army commander Gregorio Alvarez is apparently attempting to exploit the military-Bordaberry split for his own ends. Earlier this month, Alvarez probably antagonized other generals and, perhaps, Bordaberry when he sponsored a public rally during which he stated that the military should become more active in promoting economic integration.

Bordaberry's job probably is not in jeopardy right now. Further clashes, however, are likely as the two sides attempt to decide whether to permit an election in 1976 and whether to retain a facade of civilian leadership after Bordaberry's term expires.

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EC

EC finance ministers yesterday discussed the return of the French franc to the European joint float and the funding of the Community's planned common-lending facility. The ministers decided to have EC central bankers discuss terms of the franc's reentry in an attempt to reach agreement in time for a formal decision at the finance ministers' meeting on June 16. They were able to put off a decision on activating the lending facility because, as yet, no EC member has formally requested a loan from it.

Paris reportedly proposed that several changes in the operation of the European joint float should be discussed before the franc reenters:

- The setting of a target zone within which the Europeans would seek to maintain a relationship with the dollar.
- A change in the settlement terms for currency intervention.
- A greater sharing of the intervention burden by the member countries with strong currencies.

Many EC members, including West Germany and the UK, quickly branded the idea of a return to fixed parities with the dollar as unacceptable at this time, particularly without prior consultation with the US. France and the other members, however, appeared willing to compromise on the other points.

One of Paris' objectives apparently is to get agreement on a concerted intervention policy regarding the dollar. When the French withdrew from the currency bloc 15 months ago, Paris was intervening in an attempt to maintain parity with the relatively strong West German mark. Bonn was exacerbating Paris' problems by intervening in dollars to strengthen the mark against the dollar. The French would obviously like to avoid a recurrence of that situation and probably want a pledge that dollar intervention policies be coordinated among joint-float members.

French President Giscard's decision to rejoin the European float was a political move intended as a sign that France wants to relaunch the drive toward financial and monetary integration. French economic officials were not consulted prior to the decision, and some have expressed strong reservations, arguing that the action is premature. Having committed himself, Giscard cannot easily pull out. The Germans presumably would be pleased if French involvement in the float forced Paris to hold more vigorously to its stabilization and anti-inflationary policies.

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Even though members have been loath to borrow from the common-lending facility because such a move would be taken as a sign of weakness by financial markets, the EC will continue to seek new commitments from OPEC members. Last month, the Venezuelans pledged \$300 million to the Community, but it is not known whether Caracas will be willing to maintain that pledge without a firm date for the lending facility's activation.

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FOR THE RECORD

LEBANON: Sporadic fighting continued in Beirut yesterday, despite the success of government security forces in limiting the clashes to a small area and calls for restraint by fedayeen and Phalangist leaders. The city was calmed somewhat by a partially effective general strike, but both sides continued to make preparations for a return to the streets in force if the situation should deteriorate. President Franjiyah formally launched his effort to find a new prime minister by consulting with leaders of several of the country's political and religious blocs.

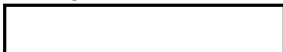
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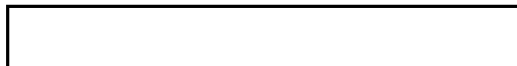
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